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0675-1628
U.S. House of Representatives

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
207 CANNON HOUSE OFFICE BUILDING

Washington, D.C. 20515

June 19, 1975

Mr. Clayton D. Jones
President
Federal Executive Institute Alumni Association
Naval Air Systems Command (AIR-910:BLG)
Washington, D. C. 20361

Dear Clay:

Confirming our recent discussions on the possible ways of alleviating the present salary compression problem, I wanted to let you know that Congressman Richard C. White, Chairman of the Subcommittee on Retirement and Employee Benefits, held hearings on my bill, H.R. 3651, on May 22, 1975. I had the opportunity to testify on this bill and thought you and your members might be interested in the technical provisions of the bill and my reasons for introducing it and urging its adoption into law by the 94th Congress. The following is the gist of the remarks I made before Mr. White's subcommittee.

I appreciate this opportunity to testify in support of H.R. 3651 which I introduced earlier this year. The purpose, in a very limited way, is to partially alleviate the inequity created by "pay compression" of the supergrades and other top level executive, judicial and legislative positions.

I know my colleagues are well aware of the situation that was created when the Presidential directive for the adjustment of executive pay was purposely delayed for a full year. The other events that have followed on from that action leave us in the peculiar situation of not having adjusted executive pay since 1969. The rates on the General Schedule pay during the same period have increased by 42 percent and would appear to be heading for another eight to ten percent, for a total of over 50 percent increase.

The bill, as introduced, would apply to all employees whose basic pay is limited to a rate not in excess of the basic pay of Level V of the Executive Schedule (section 5308, title 5, United States Code) and employees serving in Executive Level V through Executive Level II and other employees in the legislative, executive and judicial branches whose pay is established under authorization of section 5307, title 5.

Very simply stated this bill would authorize employees to participate in retirement and life insurance programs based upon what is commonly referred to

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as "asterisk" or "comparability" rate on the General Schedule salary schedule. That rate is the amount reflecting true comparability with private industry salaries based on the annual Bureau of Labor Statistics survey of private industry rates of pay. The highest "asterisk" or "comparability" rate for GS-18 is currently \$46,336 per annum. As you gentlemen know, the present maximum for supergrades under the GS schedule is \$36,000 per year.

As an example, for retirement and life insurance purposes, this legislation would increase steps 8, 9 and 10 of GS-15 and all other step rates of GS-16 through GS-18 to the "asterisked" rates as listed in the General Schedule of October 1, 1974. The amount of such increase would range from \$36,000 to \$36,776 on the eighth step of GS-15 to an increase from \$36,000 to \$46,336 at step 1 of GS-18. The Executive Schedule personnel, up to and including Executive Level II, could also be advanced for purposes of retirement and life insurance to the maximum GS-18 salary of \$46,336 per annum.

I know there has been some opposition to this legislation based upon a premise that the retirement fund should not be used as a basis for correcting a deficiency in the pay system. It has been further stated that the Administration and the Congress should take immediate action to correct the present pay inequities for its executives, thereby obviating the necessity for my bill. I do not necessarily disagree with either of these viewpoints but I have seen what has happened through a series of circumstances that created the present inequity, and it is quite conceivable it could occur again. Therefore, I believe the legislation I propose is a good bill to have on the books as an interim measure until the executive pay system can be modified and adjusted to "true comparability," and for future insurance if the same pay compression situation should occur.

I would like to correct one other impression that was initially created by my introduction of this legislation to the effect that this bill would encourage early retirement. The exact opposite is true. It is my intent to slow down the exodus from the Federal service of our supergrade and key executives who now have more financial incentive to retire than to remain, inasmuch as they can receive an increase on their annuity but cannot receive a pay increase because of the \$36,000 frozen rate limitation. They would be encouraged to stay because the base rate of the high three years of salary used for computing their annuities would be increased from the present \$36,000 to \$46,000 for the period 1974 through 1977. By this time, the executive pay formula should be reviewed, revised and implemented.

The increased cost would be partially offset as employees would be required to deposit into the retirement fund seven percent of the difference between their actual take-home pay and the "asterisk" rate reflecting comparability.

I encourage your consideration of this proposal to place legislation in effect which, in a small way, would offset the present inequity and for the future, would insure that executives would not be penalized for annuity compensation purposes in the event there is a delay in adjusting their pay on a fair and equitable basis.

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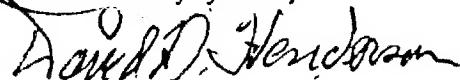
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Clay, I am sure from our conversations you understand that this is not a substitute for the urgent and critical need for adjustment of executive salaries. I consider this bill complimentary to any interim adjustment and a safety gap measure in the event we should ever run into a similar "salary compression" problem in the future.

With best personal regards, I am

Sincerely yours,



David N. Henderson
Chairman